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BETTY J. WILSON
CLERK OF THE DIST. CL.

TERESA HILDRETH

and other relief against defendants who have either violated or are about to violate provisions of the Idaho Securities Act or any Rule thereunder.

VENUE

2. The acts and practices alleged herein comprising violations of law by the above-named Defendants occurred in the conduct of trade and commerce in Nez Perce County, and elsewhere in the State of Idaho.

DEFENDANT

3. Defendant Joseph Oscar Mader ("Mader") is an individual residing at 633 Burrell, Lewiston, Idaho 83501. Mader was licensed as a salesman to sell securities pursuant to Idaho Code §30-1406 at relevant times, but Mader was not licensed to sell commodities pursuant to Idaho Code §30-1502. Mader began his career in the securities industry in 1986.

4. Mader has worked closely with his father, Fred S. Mader throughout his career in selling securities. Early in his career, Mader developed a clientele and placed them mostly in sound, conservative investments such as Idaho Housing Bonds, Public Utility Bonds, and Franklin Bond Funds. The 1990's brought financial difficulties to the Mader family businesses, and Mader began convincing his clients to invest money in promissory notes issued by himself, his family, Mader family businesses, and local businesses in which Mader owned an interest.

5. The majority of clients investing in these promissory notes were retired persons dependent on investment income to supplement their social security. Investors were enticed by the returns offered by the promissory notes, which were greater than the returns that they had been receiving on their other investments. Mader failed to provide

material facts to the investors about their investments, including financial statements and offering materials.

6. Mader encouraged his clients to fund their investment in the promissory notes by liquidating bonds and/or mutual funds, borrowing on margin against their investments, or taking the money from existing certificates of deposit or savings accounts.

ENTITIES INVOLVED

7. Mader sold unregistered securities in the form of promissory notes. Notes were issued by the following persons or entities: Joseph O. Mader, F. S. Mader, R-M Paper Products Inc., Clearwater Commodities, Mader Properties, Mader Agency, Inc., Blake E. Randall, Blake Randall, Sandra Mader, Elden J. Likkell, and J-E Enterprises.

8. Mader solicited his securities clients to invest in promissory notes issued by Joseph O. Mader. These investors believed that the money was being invested in real estate and that the assets of Mader Agency, Inc. were "backing" the notes.

9. Mader Agency, Inc. was incorporated in 1980 by Joseph O. Mader's father, Fred S. Mader. The corporation had nine shareholders with Fred S. Mader owning 57% of the outstanding shares and Joseph O. Mader owning 17% of the outstanding shares. Mader Agency, Inc. is principally an insurance agency, with offices in Kamiah, Grangeville, Lewiston, and Cottonwood. Fred S. Mader was President of Mader Agency, Inc. until September 1, 1994, when Joseph O. Mader became President. Mader Agency, Inc. filed a Chapter 11 bankruptcy in October, 1996. From 1992 through 1995, Mader solicited his securities clients to invest in promissory notes issued by Mader Agency, Inc. Mader informed his clients that their investments were backed by Mader Agency, Inc.

Mader did not provide any financial documents concerning Mader Agency, Inc. nor did he disclose potential risks associated with investing in Mader Agency, Inc.

10. Mader Properties was a partnership, with Mader Agency, Inc. being the general partner. Mader Properties owned real estate consisting of an eight-unit property in Lewiston, Idaho.

11. R-M Paper Products Inc. was incorporated in July, 1992 principally as the manufacturer of hollow cores for paper rolls, and later became a manufacturer of wood fence products. Stock ownership in R-M Paper is as follows: Fred S. Mader, 37.4%; Joseph O. Mader, 37.4%; Leland Marvin, 15.5%; and Blake Randall, 9.7%. From 1992 through 1995, Mader solicited his securities clients to invest in promissory notes issued by R-M Paper Products Inc. Mader sold stock in R-M Paper Products Inc. to client, Leland Marvin for \$20,000. Mader did not provide any financial documents concerning R-M Paper Products Inc. nor did he disclose potential risks associated with investing in R-M Paper Products Inc.

12. Clearwater Commodities was a partnership formed by Joseph O. Mader and Stanley Grygney as equal partners in 1993. The partnership was in the business of commodities trading but was dissolved in 1995. Although Mader was never licensed to sell commodities as required by Idaho Code §30-1502, he solicited commodities trades from two of his securities customers, and from at least two other individuals. Commodities are extremely risky investments and were unsuitable recommendations for these particular investors. Mader solicited at least \$30,000 from one of his securities clients to invest in a promissory note issued by Clearwater Commodities. Mader did not

provide any financial documents concerning Clearwater Commodities nor did he disclose potential risks associated with investing in Clearwater Commodities.

13. Sandra Mader is the wife of Joseph O. Mader.

VICTIMS

14. Beginning in or about 1992, Mader sold or offered to sell securities in the form of promissory notes to Investor A.M. On or about October 21, 1993, Investor A.M. gave Mader \$6,500 to invest in commodities. Mader did not disclose to Investor A.M. that he was not licensed to sell commodities. Mader did not disclose to Investor A.M. that commodities are extremely risky investments and were unsuitable for Investor A.M. Mader convinced Investor A.M. to invest at least \$79,000 in what Investor A.M. believed to be an investment in Mader Agency, Inc. This investment is evidenced by two promissory notes, one issued on October 1, 1992 by F. S. Mader and Joseph O. Mader in the amount of \$40,000, and the other issued on October 15, 1994 by Mader Agency in the amount of \$40,000. Investor A.M. lost an estimated \$83,400 invested with Mader. Mader did not provide Investor A.M. with any financial disclosure documents nor disclose potential risks associated with the investments.

15. Beginning in or about 1993, Mader sold or offered to sell securities in the form of promissory notes to Investor R.M. On or about April 1, 1993, Mader convinced Investor R.M. to invest \$30,000 in a deed of trust note dated July 1, 1993 and issued by Joseph O. Mader and Sandra Mader. On or about July 26, 1993, Mader convinced Investor R.M. to invest \$25,000 in a promissory note dated August 1, 1993 and issued by R-M Paper Products Inc. On or about November 4, 1993, Mader convinced Investor R.M. to invest \$30,000 in a promissory note dated November 1, 1993 and issued by

Clearwater Commodities. Investor R.M. lost an estimated \$77,572 invested with Mader. Mader did not provide Investor R.M. with any financial disclosure documents nor disclose potential risks associated with the investments.

16. Beginning in or about 1992, Mader sold or offered to sell securities in the form of a promissory note to Investor T.P. On or about June, 1992, Mader convinced Investor T.P. to invest \$6,662, \$8,000, and \$42,338 in a promissory note dated June 15, 1992 and issued by Mader Properties in the amount of \$60,000. Investor T.P. lost an estimated \$45,418 invested with Mader. Mader did not provide Investor T.P. with any financial disclosure documents nor disclose potential risks associated with the investments.

17. Beginning in or about 1992, Mader sold or offered to sell securities in the form of promissory notes to Investor C.S. On or about March 3, 1992, Mader convinced Investor C.S. to invest \$25,200 in a deed of trust promissory note issued by Mader Agency, Inc. On or about September 16, 1993, Mader convinced Investor C.S. to invest \$43,913.79 in a promissory note issued by Joseph O. Mader and Sandra Mader (Deed of Trust dated September 10, 1993 indicates there is a promissory note in the amount of \$50,000). Investor C.S. lost an estimated \$71,469 invested with Mader. Mader did not provide Investor C.S. with any financial disclosure documents nor disclose potential risks associated with the investments.

18. Beginning in or about 1992, Mader sold or offered to sell securities in the form of a promissory note to Investor G.F. On or about September 16, 1992, Mader convinced Investor G.F. to invest \$37,000 in a promissory note dated August 15, 1992 and issued by Mader Agency, Inc. in the amount of \$40,000. Investor G.F. lost an

estimated \$21,725 invested with Mader. Mader did not provide Investor G.F. with any financial disclosure documents nor disclose potential risks associated with the investment.

19. Beginning in or about 1992, Mader sold or offered to sell securities in the form of promissory notes to Investor D.W. Checks were written by Investor D.W. as follows: check dated 1/22/92 to Mader Agency for \$63,000; check dated 7/24/92 to Mader Properties for \$31,000; check dated 11/17/92 to R. M. Paper Products for \$20,000; check dated 7/2/93 to Mader Agency for \$50,000; check dated 10/5/93 to R. M. Paper for \$30,000; and check dated 12/12/95 to Mader Agency for \$65,000. Notes to Investor D.W. are as follows: deed of trust promissory note dated 1/23/92 from Mader Agency, Inc. for \$63,000; promissory note dated 8/15/92 from F. S. Mader and Joseph O. Mader for \$22,500; promissory note dated 6/1/93 from Mader Agency, Inc. for \$50,000; promissory note dated 10/5/93 from Blake E. Randall and Joseph O. Mader with attached Collateral Agreement from R-M Paper for \$30,000; and promissory note dated 6/15/96 from Joseph O. Mader for \$305,000. Investor D.W. lost an estimated \$354,000 invested with Mader. Mader did not provide Investor D.W. with any financial disclosure documents nor disclose potential risks associated with the investments.

20. Beginning in or about 1992, Mader sold or offered to sell securities in the form of a promissory note to Investor R.R. On or about March 19, 1992, Mader convinced Investor R.R. to invest \$40,000 in a promissory note dated March 15, 1992 and issued by Joseph O. Mader. Investor R.R. lost an estimated \$30,905 invested with Mader. Mader did not provide Investor R.R. with any financial disclosure documents nor disclose potential risks associated with the investment.

21. Beginning in or about 1992, Mader sold or offered to sell securities in the form of promissory notes to Investor G.B. On or about July 9, 1992, Mader convinced Investor G.B. to invest \$51,906.55 in a promissory note dated July 10, 1992 and issued by F. S. Mader and Joseph O. Mader in the amount of \$55,000. On or about January 18, 1993, Mader convinced Investor G.B. to invest \$5,000 in Joe Mader (no corresponding note was found). On or about August 5, 1993, Mader convinced Investor G.B. to invest \$10,000 in a promissory note dated August 6, 1993 and issued by Joseph O. Mader. On or about January 20, 1994, Mader convinced Investor G.B. to invest \$35,000 in a promissory note dated January 21, 1994 and issued by Joseph O. Mader and Sandra Mader. On or about July 5, 1994, Mader convinced Investor G.B. and Investor B.P. to invest \$25,000 in a promissory note dated July 15, 1994 and issued by F. S. Mader and Joseph O. Mader in the amount of \$50,000. Investor G.B. lost an estimated \$66,292 invested with Mader. Mader did not provide Investor G.B. with any financial disclosure documents nor disclose potential risks associated with the investments.

22. Beginning in or about 1989, Mader sold or offered to sell securities in the form of promissory notes to Investor E.B. Checks were written by Investor E.B. as follows: check dated 10/15/91 to Joe Mader for \$10,000; check dated 1/15/94 to Mader Agency for \$89,750; check dated 1/18/93 to Joe Mader for \$15,000; check dated 8/5/93 to Joe Mader for \$10,000; check dated 1/20/94 to Joseph O. Mader for \$20,000; and check dated 8/4/94 to Mader Agency for \$10,000. Promissory notes to Investor E.B. are as follows: promissory note dated 1/15/91 from Mader Agency, Inc. for \$50,000; promissory note dated 1/15/92 from Mader Agency, Inc. for \$50,000; promissory note dated 8/6/93 from Joseph O. Mader for \$10,000; and promissory note dated 1/21/94 from

Joseph O. Mader and Sandra Mader for \$35,000. Investor E.B. lost an estimated \$249,366 invested with Mader. Mader did not provide Investor E.B. with any financial disclosure documents nor disclose potential risks associated with the investments.

23. Beginning in or about 1992, Mader sold or offered to sell securities in the form of promissory notes to Investor R.S. Checks written by Investor R.S. are as follows: check dated 5/19/92 to Mader Agency for \$23,889; check dated 8/11/92 to Mader Agency for \$25,000; check dated 2/23/93 to Mader Agency for \$25,000; check dated 8/19/93 to R-M Paper Products for \$14,000; check dated 12/2/93 to Mader Agency for \$50,000; check dated 12/14/93 to Evergreen Apts. for \$20,000; check dated 8/25/94 to R-M Paper for \$20,000; check dated 9/18/95 to Joe Mader for \$5,000; and check dated 1/31/95 to R-M Paper Products for \$10,000. Three checks dated 2/8/96 from Bear, Stearns Securities Corp. to Investor R.S. in the amounts of \$4,958.59, \$5,015.48, and \$5,556.04 were deposited in the account of Mader Agency, Inc. Promissory notes to Investor R.S. are as follows: deed of trust note dated 7/1/92 from Joseph O. Mader and Sandra Mader for \$25,000; promissory note dated 8/15/92 from F. S. Mader and Joseph O. Mader for \$25,000; promissory note dated 8/15/93 from Blake Randall and Joseph O. Mader for \$20,000; promissory note dated 12/1/93 from Blake Randall and Joseph O. Mader for \$55,000; promissory note dated 8/15/94 from Blake E. Randall for \$20,000; and promissory note dated 9/15/95 from Joseph O. Mader for \$20,000. Investor R.S. lost an estimated \$160,838 invested with Mader. In 1993, Mader advised Investor R.S. to borrow on margin and invest the money in promissory notes offered by Mader. Investor R.S. did not understand borrowing on margin, and Mader did not advise Investor R.S. that the margin interest rate was equal to the interest rate on the promissory notes offered

by Mader. Mader did not provide Investor R.S. with any financial disclosure documents nor disclose potential risks associated with the investments.

24. Beginning in or about 1991, Mader sold or offered to sell securities in the form of promissory notes to Investor V.H. Investor V.H. died in 1993. Checks written by Investor V.H. are as follows: check dated 11/18/91 to Mader Agency, Inc. for \$164,760.77; check dated 10/31/93 to Joe Mader for \$40,000; and check dated 5/9/94 to Mader Agency for \$65,000. On 11/16/91 Investor V.H. were issued 53,334 shares of stock in Mader Agency, Inc. Promissory notes to Investor V.H. are as follows: promissory note dated 3/7/91 from J-E Enterprises for \$66,724.26; promissory note dated 11/18/91 from Mader Agency, Inc. for \$250,000; promissory note dated 5/1/94 to Investor V.H. from Joseph O. Mader for \$68,500; promissory note dated 11/1/93 to Investor V.H. from Joseph O. Mader and Sandra Mader for \$42,000; and promissory note dated 4/15/95 from Mader Agency, Inc. for \$325,000. It appears that Investor V.H. lost an estimated \$411,822 invested with Mader. Mader did not provide Investor V.H. with any financial disclosure documents nor disclose potential risks associated with the investments.

25. Beginning in or about 1992, Mader sold or offered to sell securities in the form of a promissory note to Investor M.H. On or about November 15, 1992, Mader convinced Investor M.H. to invest \$80,000 in a promissory note issued by Mader Agency, Inc. Mader did not provide Investor M.H. with any financial disclosure documents nor disclose potential risks associated with the investment.

26. Beginning in or about 1992, Mader sold or offered to sell securities to Investor L.M. On or about December 12, 1994, Mader caused to be issued 10,000 shares of stock

in R-M Paper Products, Inc. to Investor L.M. for \$20,000 previously invested. Mader never told Investor L.M. about any risk associated with the investment, nor did he give any financial information about the company. On or about September 15, 1994, Investor L.M. gave Mader \$5,000 to invest in the commodities market. Mader did not disclose to Investor L.M. that he was not licensed to sell commodities.

COUNT ONE

The allegations contained in paragraphs 1 through 26 are hereby realleged as if fully set forth.

27. Beginning on a date uncertain but at least since 1991 Defendant offered for sale, either directly or indirectly, or aided and abetted in the offer, to Idaho residents through printed offering material and oral solicitations, securities.

28. The securities offered by Defendant were not registered with the Department as required by Idaho Code §30-1416.

29. Defendant has violated Idaho Code §30-1416.

COUNT TWO

The allegations contained in paragraphs 1 through 29 are here by realleged as if fully set forth.

30. Beginning on a date uncertain but at least since 1993 Defendant offered for sale, either directly or indirectly, or aided and abetted in the offer, to Idaho residents through oral solicitations, commodities.

31. These were unlawful commodity transactions pursuant to Idaho Code §30-1502, since neither the Defendant nor the transactions are exempt under Idaho Code §§30-1503 and 30-1504.

32. Defendant has violated Idaho Code §30-1502.

COUNT THREE

The allegations contained in paragraphs 1 through 32 are hereby realleged as if fully set forth.

33. Defendant offered and sold securities to individuals in this state in violation of an antifraud provision of the Idaho Securities Act, Idaho Code §30-1403(2), in that he omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading. The omissions of Defendant include, but are not limited to, the following:

- A. Defendant failed to disclose the intended use of funds received as investments in promissory notes.
- B. Defendant failed to disclose the financial difficulties of the issuer of the promissory notes that might make payment on the notes improbable.
- C. Defendant failed to provide financial statements and offering materials regarding the investments.
- D. Defendant failed to disclose the risks associated with the investments.
- E. Defendant failed to explain borrowing on margin to Investor R.S..
- F. Defendant failed to disclose that some of the money was invested in commodities.
- G. Defendant failed to disclose that he was not licensed to sell commodities.
- H. Defendant failed to disclose that investments in commodities and promissory notes were unsuitable for these particular investors.

I. Defendant failed to disclose that he was unable to make payment on some previously issued promissory notes.

34. Defendant has violated Idaho Code §30-1403(2).

COUNT FOUR

The allegations contained in paragraph 1 through 34 are hereby realleged as if fully set forth.

35. Defendant offered and sold securities to individuals in this state in violation of an antifraud provision of the Idaho Securities Act, Idaho Code §30-1403(2), in that he made untrue statements of material facts in connection with the offer and sale of securities. The misrepresentations of Defendant include, but are not limited to, the following:

- A. Misrepresenting that the invested money would be used in real estate ventures, when in fact a portion of the money was used for Defendant's personal and business expenses, to trade in commodities, and to make principal and interest payments to other noteholders.
- B. Misrepresenting that the issuers of the promissory notes were financially sound.
- C. Misrepresenting that the assets of Mader Agency, Inc. were "backing" the promissory notes.
- D. Misrepresenting to Investor R.R. that Defendant would pledge his stock in the Mader Agency, Inc. as collateral on their promissory note, but the stock was never assigned as collateral.

E. Misrepresenting to Investor V.H. that the \$65,000 invested in a promissory note issued by Mader Agency, Inc. would be used to finance four duplex units, when in fact the majority of the money was deposited in Mader's commodities account.

36. Defendants have violated Idaho Code §30-1403(2).

COUNT FIVE

The allegations contained in paragraph 1 through 36 are hereby realleged as if fully set forth.

37. Defendant offered and sold securities to persons in this state in violation of an antifraud provision of the Idaho Securities Act, Idaho Code §30-1403(3), in that he engaged in acts, practices, and courses of business which operated as a fraud or deceit upon other persons. Defendant's acts, practices, and courses of business which operated as a fraud or deceit include, but are not limited to, the following:

A. The pattern of omissions and misrepresentations referred to in Counts Two and Three, above.

B. The pattern of advising clients to liquidate bonds, mutual funds or other investments to invest in risky promissory notes. The recommendation was made without reasonable grounds to believe that the recommendation was not unsuitable for these particular investors.

C. The pattern of advising clients to borrow on margin to invest in risky promissory notes. The recommendation was made without reasonable grounds to believe that the recommendation was not unsuitable for these particular investors.

D. The pattern of advising clients to take money from certificates of deposit or savings accounts to invest in risky promissory notes. The recommendation was made without reasonable grounds to believe that the recommendation was not unsuitable for these particular investors.

38. Defendant has violated Idaho Code §30-1403(3).

PRAYER FOR RELIEF

Wherefore, Plaintiff prays for a Judgment in favor of Plaintiff and against Defendant as follows:

- A. That Defendant be adjudged to have violated the Idaho Securities Act and the Idaho Commodity Code.
- B. That Defendant be permanently enjoined from engaging in any acts, practices or omissions which would constitute violations of the Idaho Securities Act, Title 30, Chapter 14, Idaho Code or the Idaho Commodity Code, Title 30, Chapter 15, Idaho Code, and in particular, that he be permanently enjoined from:
 1. Selling or offering for sale nonexempt securities in any form in the State of Idaho until such time as the securities have been registered with the Idaho Department of Finance in accordance with Title 30, Chapter 14, Idaho Code;
 2. Selling or offering for sale any commodity in the State of Idaho until such time as Defendant has registered in accordance with Title 30, Chapter 15, Idaho Code;
 3. While engaged in or in connection with the offer, sale or purchase of any security:
 - (a) Employing any device, scheme or artifice to defraud any investors in the securities;

(b) Making any untrue statement of a material fact or omitting to state a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading;

(c) Engaging in any act, practice or course of business which operates or would operate as a fraud or deceit upon any person.

4. Aiding, abetting, counseling, inducing or causing any other person to engage in any of the types of conduct described in paragraphs 1, 2, or 3, above.

C. That Defendant be prohibited from claiming the availability of, using, or offering or selling securities, under any exemptions under the Idaho Securities Act without receiving the prior written consent of the Director.

D. Such other and further relief as this Court may deem equitable and just.

DATED this 23rd day of December, 1998.



Scott B. Muir
Deputy Attorney General
Department of Finance